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C O N F I D E N T I A L SECTION 01 OF 02 LJUBLJANA 000550

SIPDIS

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [PREL](#) [SI](#)  
SUBJECT: ECONOMIC FEAR IN SLOVENIA PROMPTS GOS ACTION

REF: A. LJUBLJANA 487  
[1](#)B. LJUBLJANA 496  
[1](#)C. LJUBLJANA 516

Classified By: DCM Brad Freden, reasons 1.4(b,d)

#### Summary

[1](#)1. (SBU) Although recent data show that Slovenia is not yet in a recession, Slovenes fear the onset of one and there is pressure on the government to forestall it. Business directors packed an auditorium on December 8 to ask the Government of Slovenia (GoS) to take swift actions to address the coming recession. PM Pahor responded that the GoS would do "whatever it takes" and presented measures the government intends to adopt before year's end. Despite sharp slowdown in the auto parts industry - which directly or indirectly employs some 20% of the Slovenian workforce - the most recent figures show the Slovenian economy is still growing slowly.  
End Summary.

#### PM Assures Economic Summit Government Ready to Act

[1](#)2. (U) On December 8, the Slovenian Chamber of Commerce organized a "Summit of Slovenian Economy," where business executives urged the government to adopt quick and prudent measures to improve the climate of trust and access to financial resources, make Slovenian companies more competitive and save jobs. Prime Minister Borut Pahor assured the crowd that the government would act and would do "whatever it takes." He stressed that the current financial problems "are worse than they appear, but we are able to solve them better than it appears today" (sic). He agreed with the business leaders that the financial situation worsens each week, and that Slovenia needs to break that pattern. He stated that this is the time to restructure the Slovenian economy. The government has two goals: increase stability of the financial system; and improve the situation of the private sector. In addition to the measures already adopted (reftels), the government will standardize conditions for loan approvals, appoint a 15-member Strategic Economic Council (SEC) (subsequently appointed on December 10) and adopt the following eight immediate measures before the end of 2008.

#### Proposed Measures

[1](#)3. (U) Pahor then detailed the measures:

- Inject capital into the state-owned Slovene Export and Development Bank (SID Bank) for corporate loans.
- Increase the reserves in the Public Fund for Entrepreneurship.
- Either increase investment tax relief OR temporarily reduce employers' contributions to the pension and health funds. Either option would cost GoS about 400 million euro.

The GoS will decide which option to pursue by 19 December.

- Reduce GoS invoice payment cycle from 60 days to 30 days.
- Support investments in new technology products and services.
- Increase investments in infrastructure (he mentioned the energy sector and railroads as examples).
- Introduce standardized cost-saving measures for any entity that receives money through these measures. He cited examples of banning first class air tickets, and eliminating Christmas bonuses.
- Adopt a decree setting uniform standards for which companies should receive loans, and not loan to businesses that cannot survive in the long run.

¶4. (U) The audience listened attentively to the entire presentation and appeared to approve of the GoS measures, stressing that immediate action is essential. The concern was palpable. In comments and questions afterwards, business people used the word "fear" repeatedly, stressing the need for effective measures "yesterday." Pahor assured the audience that the government will work around the clock. He ended the summit on an emotional note, stressing the need for unity and a grand vision. When these are present, "Slovenia has always been successful."

Other Indicators

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¶5. (U) The summit occurred at a time when media is reporting daily about slowdowns and cutbacks in the auto parts industry. Several plants have decreased production for December, spurring concern because the auto parts industry, together with its suppliers, employs up to 20% of the Slovene workforce and contributes 6% of the country's GDP. However, growth reports issued December 11 indicate that Slovenia is not currently in a recession, with growth in Q3 2008 3.8% over Q3 2007 - leading to an current estimated annual growth rate for 2008 of about 4%. Growth rates for 2009 are projected between 2% and 3% - numbers that are very low for Slovenia, but still not a recession. Dun and Bradstreet have maintained Slovenia's rating of DB2b (low risk). However, business leaders are clearly worried because sales orders this quarter are way down. Multiple business leaders have reported nervousness about lower orders to EmbOffs.

Comment

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¶6. (C) Despite criticism from the opposition that the government has not done enough to forestall a recession, the business community welcomed the government's proposed measures. We expect Parliament will hold an extraordinary session to consider the measures so that they can be enacted by the end of 2008. The government has been addressing different groups from business, media, and the public on a daily basis with messages about how they are moving to prevent a recession. One upside to the global financial crisis for Slovenia is that the fear of falling into a prolonged recession is causing a much needed scrutiny of economic and financial practices. The GoS has announced the creation of a committee to oversee the appointment of people to supervisory boards of public funds and state-owned companies. The promised appointment of non-partisan experts would depoliticize the state-owned sector of the economy, long a source of political patronage. The GoS move to mandate belt-tightening by applying "savings" rules to companies using public funds is also a welcome step. Post will watch and report how these measures affect the Slovenian economy.

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